

ISLAND CITY ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Island City Academy

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Island City Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy, as of June 30, 2023, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Island City Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Island City Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Island City Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Island City Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2023 on our consideration of Island City Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Island City Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Island City Academy's internal control over financial reporting and compliance.

Maney Costeiran PC

September 13, 2023

**ISLAND CITY ACADEMY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

This section of Island City Academy’s (the Academy) annual financial report presents our discussion and analysis of the Academy’s financial performance during the fiscal year that ended on June 30, 2023.

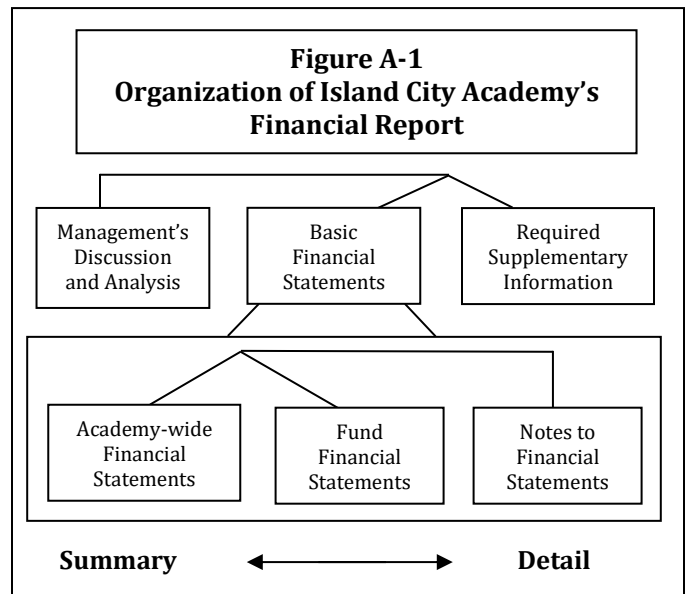
FINANCIAL HIGHLIGHTS

- The Academy had an increase in the general fund balance of \$159,057 compared to a budgeted increase of \$57,504, which resulted in an ending general fund balance of \$816,672 for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are *Academy-wide financial statements* that provide both *short-term* and *long-term* information about the Academy’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Academy, reporting the Academy’s operations *in more detail* than the Academy-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of Academy-wide and Fund Financial Statements		
	Academy-wide Statements	Fund Financial Statements
		Governmental Funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary, such as special education and building maintenance
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Types of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or sooner thereafter, no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Figure A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

ACADEMY-WIDE STATEMENTS

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy’s *net position* and how they have changed. Net position - the difference between the Academy’s assets and liabilities - is one way to measure the Academy’s financial health or *position*.

- Over time, increases or decreases in the Academy’s net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional nonfinancial factors such as changes in the Academy’s revenue streams and the condition of school buildings and other facilities. Currently the Academy is near capacity student enrollment and any variation from that may reflect negatively on the overall financial health of the Academy.

In the Academy-wide financial statements, the Academy's activities:

- Governmental activities - Most of the Academy's basic services are included here, such as regular and special education, administration and operations and maintenance. State formula aid finances most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Academy's *funds*, focusing on its most significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by loan covenants.
- The Academy established other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like food service).

The Academy has one kind of fund:

- Governmental funds - Most of the Academy's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net position - The Academy's combined net position was higher on June 30, 2023, than it was the year before - increasing by \$522,696 to \$2,109,793. See Figures A-3 and A-4.

The total revenues increased by 6% to \$2,567,879. This is mainly due to the increase in state revenue. The state aid foundation allowance included in revenue from state sources accounts for approximately 72% of the Academy's revenue.

The total cost of instruction increased by 2% to \$1,076,363. Total support services increased by 21% to \$782,827.

Figure A-3		
Island City's Net Position		
	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 1,217,108	\$ 1,073,420
Capital assets	1,609,847	1,393,794
Total assets	<u>2,826,955</u>	<u>2,467,214</u>
Other liabilities	234,630	246,776
Noncurrent liabilities	482,532	633,341
Total liabilities	<u>717,162</u>	<u>880,117</u>
Net position		
Net investment in capital assets	1,127,315	760,453
Restricted for debt service	-	16,368
Restricted for (special revenue) food service	52,715	41,440
Unrestricted	929,763	768,836
Total net position	<u><u>\$ 2,109,793</u></u>	<u><u>\$ 1,587,097</u></u>

Figure A-4		
Changes in Island City's Net Position		
	<u>2023</u>	<u>2022</u>
Revenues		
Charges for services	\$ 40,056	\$ 89,590
Operating grants and contributions	620,395	468,781
General revenues		
State sources - unrestricted	1,841,918	1,787,845
Intermediate sources	53,481	82,949
Local sources	7,066	3,125
Investment earnings	4,963	790
Total revenues	<u>2,567,879</u>	<u>2,433,080</u>
Expenses		
Instruction	1,076,363	1,051,253
Support services	782,827	645,556
Community services	14,832	98,984
Food services	57,137	104,587
Interest on long-term debt	19,891	46,574
Unallocated depreciation	94,133	62,587
Total expenses	<u>2,045,183</u>	<u>2,009,541</u>
Change in net position	<u><u>\$ 522,696</u></u>	<u><u>\$ 423,539</u></u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported combined fund balances of \$982,478, which is \$135,932 higher than last year's ending fund balances of \$846,546.

The Academy's general fund had more revenues and other financing sources than expenditures and other financing uses by \$159,057. The debt service fund had more expenditures and other financing uses than revenues and other financing sources by \$36,270. The capital projects fund - building and site had more revenues and other financing sources than expenditures and other financing uses by \$1,870. The special revenue fund had more revenues and other financing sources than expenditures and other financing uses by \$11,275. Overall, the Academy had an increase in total fund balance.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the annual operating budget several times. These budget amendments are:

- Changes made in the third and fourth quarters to account for changes in assumptions since the original budget was adopted.

While the Academy's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by \$57,504, the actual results showed revenues and other financing sources exceeded expenditures and other financing uses by \$159,057.

- Actual revenues and other financing sources were \$105,743 more than expected. This difference is mainly due to more federal revenue than anticipated.
- The actual expenditures and other financing uses were \$4,190 more than expected.

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

By the end of 2023, the Academy had invested \$1,609,847 in a broad range of capital assets, net of depreciation, including school building, land improvements, computer and audiovisual equipment, and other school furniture. This amount represents a net increase of \$216,053 from last year. (More detailed information about capital assets can be found in Note 4 to the financial statements). Total depreciation expense for the year was \$94,133.

**Figure A-5
Island City Academy's Capital Assets**

	2023			2022
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 96,082	\$ -	\$ 96,082	\$ 96,082
Buildings and improvements	2,174,669	920,754	1,253,915	1,179,456
Computer equipment	89,552	38,980	50,572	17,180
Land improvements	176,948	56,662	120,286	99,474
Furniture and fixtures	357,985	268,993	88,992	1,602
Total	\$ 2,895,236	\$ 1,285,389	\$ 1,609,847	\$ 1,393,794

Long-term Obligations

At year-end, the Academy had \$482,532 in certificates of participation outstanding, a reduction of \$150,809 from last year. (More detailed information about the Academy’s long-term liabilities is presented in Note 5 to the financial statements.)

FACTORS BEARING ON THE ACADEMY’S FUTURE

At the time these financial statements were prepared and audited, the Academy was aware of the following circumstances that could significantly affect its financial health in the future:

- The Academy has adopted a general fund budget for 2023/2024 where revenues are expected to exceed expenditures by \$108,078. This is largely due to an increase in State per pupil funding.
- The Academy is making adjustments as all ESSER monies have been materially spent as of June 30, 2023. The Academy does not anticipate this having a significant impact on the ongoing operations or finances of the entity.
- The Academy is heavily dependent on State funding. As of the date of this report, it is unknown how additional State revenues will be allocated to the Academy. Once allocations are made, the Academy will evaluate how to best serve students with the additional funding.

CONTACTING THE ACADEMY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our parents, customers, investors, and creditors with a general overview of the Academy’s finances and to demonstrate the Academy’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Administrator’s Office, Island City Academy, 6421 Clinton Trail, Eaton Rapids, MI 48827. Phone (517) 663-0111.

BASIC FINANCIAL STATEMENTS

**ISLAND CITY ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2023**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 683,967
Intergovernmental receivable	498,492
Prepays	34,649
Capital assets not being depreciated	96,082
Capital assets, net of accumulated depreciation	1,513,765
TOTAL ASSETS	2,826,955
LIABILITIES	
Accounts payable	64,508
Accrued personnel and related items	142,964
Unearned revenue	27,158
Noncurrent liabilities	
Due within one year	155,719
Due in more than one year	326,813
TOTAL LIABILITIES	717,162
NET POSITION	
Net investment in capital assets	1,127,315
Restricted for food service	52,715
Unrestricted	929,763
TOTAL NET POSITION	\$ 2,109,793

See notes to financial statements.

**ISLAND CITY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Functions/Programs	Expenses	Program Revenue		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 1,076,363	\$ -	\$ 196,954	\$ (879,409)
Support services	782,827	-	319,178	(463,649)
Community services	14,832	21,503	34,731	41,402
Food services	57,137	18,553	69,532	30,948
Interest on long-term debt	19,891	-	-	(19,891)
Unallocated depreciation	94,133	-	-	(94,133)
Total governmental activities	<u>\$ 2,045,183</u>	<u>\$ 40,056</u>	<u>\$ 620,395</u>	<u>(1,384,732)</u>
General revenues				
State source - unrestricted				1,841,918
Intermediate sources				53,481
Local sources				7,066
Investment earnings				4,963
Total general revenues				<u>1,907,428</u>
CHANGE IN NET POSITION				522,696
NET POSITION, beginning of year				<u>1,587,097</u>
NET POSITION, end of year				<u>\$ 2,109,793</u>

See notes to financial statements.

**ISLAND CITY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

	General Fund	Debt Service	Capital Projects Fund Building and Site	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 494,573	\$ -	\$ 95,681	\$ 93,713	\$ 683,967
Receivables					
Intergovernmental	488,772	-	-	9,720	498,492
Due from other funds	50,292	-	17,410	-	67,702
Prepays	34,649	-	-	-	34,649
TOTAL ASSETS	\$ 1,068,286	\$ -	\$ 113,091	\$ 103,433	\$ 1,284,810
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 64,082	\$ -	\$ -	\$ 426	\$ 64,508
Accrued personnel and related items	142,964	-	-	-	142,964
Unearned revenue	27,158	-	-	-	27,158
Due to other funds	17,410	-	-	50,292	67,702
TOTAL LIABILITIES	251,614	-	-	50,718	302,332
FUND BALANCES					
Nonspendable					
Prepays	34,649	-	-	-	34,649
Restricted					
Food service	-	-	-	52,715	52,715
Assigned					
Capital projects	-	-	113,091	-	113,091
Unassigned	782,023	-	-	-	782,023
TOTAL FUND BALANCES	816,672	-	113,091	52,715	982,478
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,068,286	\$ -	\$ 113,091	\$ 103,433	\$ 1,284,810

See notes to financial statements.

**ISLAND CITY ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023**

Total governmental fund balances \$ 982,478

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the fund:

The cost of the capital assets is	\$ 2,895,236	
Accumulated depreciation is	<u>(1,285,389)</u>	
		1,609,847

Long-term liabilities are not due and payable from current resources and are not reported in the fund:

Certificates of participation		<u>(482,532)</u>
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Net position of governmental activities \$ 2,109,793

ISLAND CITY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023

	General Fund	Debt Service	Capital Projects Fund Building and Site	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
REVENUES					
Local sources	\$ 82,359	\$ -	\$ 1,337	\$ 18,595	\$ 102,291
State sources	1,931,918	-	-	2,174	1,934,092
Federal sources	410,657	-	-	67,358	478,015
Intermediate sources	53,481	-	-	-	53,481
TOTAL REVENUES	2,478,415	-	1,337	88,127	2,567,879
EXPENDITURES					
Current					
Instruction					
Basic instruction	891,447	-	-	-	891,447
Added needs	204,818	-	-	-	204,818
Total instruction	1,096,265	-	-	-	1,096,265
Support services					
Pupil	63,714	-	-	-	63,714
Instructional staff	1,544	-	-	-	1,544
General administration	100,388	-	-	-	100,388
School administration	283,685	-	-	-	283,685
Business	70,917	-	-	-	70,917
Operations and maintenance	304,110	-	-	-	304,110
Support services other	56,955	-	-	-	56,955
Total support services	881,313	-	-	-	881,313
Community service	14,832	-	-	-	14,832
Food service	-	-	-	57,137	57,137
Capital outlay	-	-	191,985	19,715	211,700
Debt service					
Principal retirement	-	150,809	-	-	150,809
Interest and fiscal charges	-	19,891	-	-	19,891
Total debt service	-	170,700	-	-	170,700
TOTAL EXPENDITURES	1,992,410	170,700	191,985	76,852	2,431,947
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	486,005	(170,700)	(190,648)	11,275	135,932
OTHER FINANCING SOURCES (USES)					
Transfers in	-	134,430	192,518	-	326,948
Transfers out	(326,948)	-	-	-	(326,948)
TOTAL OTHER FINANCING SOURCES (USES)	(326,948)	134,430	192,518	-	-
NET CHANGE IN FUND BALANCES	159,057	(36,270)	1,870	11,275	135,932
FUND BALANCES					
Beginning of year	657,615	36,270	111,221	41,440	846,546
End of year	<u>\$ 816,672</u>	<u>\$ -</u>	<u>\$ 113,091</u>	<u>\$ 52,715</u>	<u>\$ 982,478</u>

See notes to financial statements.

**ISLAND CITY ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Net change in fund balances total governmental funds \$ 135,932

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	310,186
Depreciation expense	(94,133)

Accrued interest on certificates of participation is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	19,902
Accrued interest payable, end of the year	-

Proceeds and repayments of principal on long-term obligations are other financing sources and expenditures in the governmental funds, but not in the statements of activities (where they are additions and reductions of liabilities):

Principal repayment	150,809
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Change in net position of governmental activities \$ 522,696

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. *Governmental activities* normally are supported by intergovernmental revenues.

Reporting Entity

The Island City Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2026. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following *Major Governmental Funds*:

The *General Fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

The Academy reports the following *Nonmajor Governmental Fund*:

The *Special Revenue Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in a special revenue fund.

During the course of operations, the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term obligations and acquisitions under leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amounts is received during the period or within the availability period for this revenue source (within 60 days of year-end).

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to public school academies based on information supplied by the academies. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The School Administrator submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- c. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Information (continued)

Budgetary Basis of Accounting (continued)

- d. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2023. The Academy does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand and demand deposit accounts.

Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Capital Assets (continued)

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and improvements	5 - 50
Computer equipment	5 - 20
Land improvements	5 - 39
Furniture and fixtures	5 - 20

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has no items that qualify for reporting in this category.

Net Position Flow Assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates authority. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2023, \$437,966 of the Academy's bank balance of \$687,966 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units at June 30, 2023 consist of the following:

Governmental units		
State sources	\$	354,249
Federal sources		129,802
Payments from ISD		<u>14,441</u>
	<u>\$</u>	<u>498,492</u>

Because of the Academy's favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	July 1, 2022	Additions	Deletions	June 30, 2023
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 96,082	\$ -	\$ -	\$ 96,082
Capital assets, being depreciated				
Building and improvements	2,035,104	139,565	-	2,174,669
Computer equipment	267,002	43,318	220,768	89,552
Land improvements	147,121	29,827	-	176,948
Furniture and fixtures	260,509	97,476	-	357,985
Total capital assets, being depreciated	<u>2,709,736</u>	<u>310,186</u>	<u>220,768</u>	<u>2,799,154</u>
Accumulated depreciation				
Building and improvements	855,648	65,106	-	920,754
Computer equipment	249,822	9,926	220,768	38,980
Land improvements	47,647	9,015	-	56,662
Furniture and fixtures	258,907	10,086	-	268,993
Total accumulated depreciation	<u>1,412,024</u>	<u>94,133</u>	<u>220,768</u>	<u>1,285,389</u>
Net capital assets being depreciated	<u>1,297,712</u>	<u>216,053</u>	<u>-</u>	<u>1,513,765</u>
Net capital assets	<u>\$ 1,393,794</u>	<u>\$ 216,053</u>	<u>\$ -</u>	<u>\$ 1,609,847</u>

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (continued)

Depreciation for the fiscal year ended June 30, 2023 amounted to \$94,133. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2023:

	Notes from Direct Borrowing and Direct Placement
Balance, July 1, 2022	\$ 633,341
Deletions	<u>(150,809)</u>
Balance, June 30, 2023	482,532
Due within one year	<u>155,719</u>
Due in more than one year	<u><u>\$ 326,813</u></u>

Long-term obligations at June 30, 2023 consist of the following:

Notes from Direct Borrowing and Direct Placement

June 2021 certificates of participation - due in monthly installments of \$15,359 to \$17,127 through June 2026, interest at 3.5%. Secured by pledged state aid.

\$ 482,532

The Academy's outstanding notes from direct borrowings and direct placements related to governmental activities of \$482,532 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS (continued)

The annual requirements to amortize long-term obligations outstanding, including interest of \$26,889, as of June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	<u>Notes from Direct Borrowing and Direct Placement</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2024	\$ 155,719	\$ 14,549	\$ 170,268
2025	160,789	9,023	169,812
2026	166,024	3,317	169,341
	\$ 482,532	\$ 26,889	\$ 509,421

Interest expense (all funds) for the year ended June 30, 2023 was \$19,891.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2023 are as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General fund	\$ 50,292	\$ 17,410
Capital projects fund	17,410	-
Nonmajor fund	-	50,292
Total	\$ 67,702	\$ 67,702

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 7 - TRANSFERS

Transfers between the governmental funds were as follows:

<u>Transfers Out</u>		<u>Transfers In</u>	
General fund	\$ 326,948	Capital projects fund	\$ 192,518
		Debt service fund	134,430
Total	\$ 326,948	Total	\$ 326,948

The transfer from the general fund to the debt service fund was to pay the annual principal and interest of the certificates of participation. The transfer from the general fund to the capital projects fund was for capital purchases.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to Central Michigan University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2023, the Academy incurred expense of approximately \$55,300 for oversight fees.

NOTE 9 - LEASED EMPLOYEES

The Academy leases all of its employees from a Professional Employment Organization (PEO). Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of the PEO. The Academy contributes 3% of the annual compensation each pay period to the PEO retirement plan resulting in retirement expense of approximately \$36,400 for leased employees in 2023.

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2023-2024 fiscal year.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024-2025 fiscal year.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2023, the Academy implemented the following new pronouncement: GASB Statement No. 96, *Subscription-based Information Technology Arrangements*.

Summary:

Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements* was issued in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

There was no material impact on the Academy's financial statements after the adoption of GASB Statement No. 96.

REQUIRED SUPPLEMENTARY INFORMATION

**ISLAND CITY ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 34,400	\$ 78,372	\$ 82,359	\$ 3,987
State sources	1,829,290	1,941,905	1,931,918	(9,987)
Federal sources	266,000	318,995	410,657	91,662
Intermediate sources	50,000	33,400	53,481	20,081
TOTAL REVENUES	<u>2,179,690</u>	<u>2,372,672</u>	<u>2,478,415</u>	<u>105,743</u>
EXPENDITURES				
Instruction				
Basic programs	859,480	865,023	891,447	(26,424)
Added needs	166,592	210,136	204,818	5,318
Total instruction	<u>1,026,072</u>	<u>1,075,159</u>	<u>1,096,265</u>	<u>(21,106)</u>
Support services				
Pupil	1,250	61,409	63,714	(2,305)
Instructional staff	-	-	1,544	(1,544)
General administration	128,000	117,408	100,388	17,020
School administration	341,988	283,362	283,685	(323)
Business	4,100	74,497	70,917	3,580
Operations and maintenance	242,600	305,881	304,110	1,771
Support services other	-	56,292	56,955	(663)
Total support services	<u>717,938</u>	<u>898,849</u>	<u>881,313</u>	<u>17,536</u>
Community services	101,570	14,200	14,832	(632)
TOTAL EXPENDITURES	<u>1,845,580</u>	<u>1,988,208</u>	<u>1,992,410</u>	<u>(4,202)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>334,110</u>	<u>384,464</u>	<u>486,005</u>	<u>101,541</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(265,000)	(326,960)	(326,948)	12
NET CHANGE IN FUND BALANCE	<u>\$ 69,110</u>	<u>\$ 57,504</u>	159,057	<u>\$ 101,553</u>
FUND BALANCE				
Beginning of year			657,615	
End of year			<u>\$ 816,672</u>	



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Island City Academy

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Island City Academy's basic financial statements and have issued our report thereon dated September 13, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Island City Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Island City Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Island City Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Island City Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Manes Costeiran PC

September 13, 2023

**ISLAND CITY ACADEMY
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2023**

FINDING 2022-001

Finding Considered a Material Weakness

Criteria:

Statement on Auditing Standards No. 115 (SAS 115), *Communication Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cashflows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles.

Condition:

Material journal entries for the proper recognition of revenue and accruals were proposed by the auditors. These misstatements were not detected by the Academy's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the Academy's general ledger.

Cause:

Misstatements were not identified and corrected by management.

Effect:

Material journal entries that were not otherwise identified by management were proposed by the Academy's auditors. These journal entries were necessary for the fair presentation of the Academy's financial statements.

Recommendation:

We recommend that the Academy take steps to assure that material journal entries are not necessary at the time future audit analysis is performed.

Status:

This finding was resolved during FY 23 by the hiring of an employee with adequate skills, knowledge, and expertise to identify and correct misstatements.



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September 13, 2023

To the Board of Education
Island City Academy

In planning and performing our audit of the financial statements of Island City Academy as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered Island City Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted one matter involving the internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated September 13, 2023 on the financial statements of Island City Academy. We will review the status of this comment during our next audit engagement. Our comment and recommendation, which has been discussed with appropriate members of management, is intended to improve the internal control, or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendation. Our comment is summarized as follows.

Food Service Fund Balance

Per Michigan Department of Education (MDE) guidelines, school food authorities (SFA) must operate food services on a nonprofit basis. We noted that the food service fund balance exceeded the three months' operating expenditures allowed. MDE requires that the SFA spend down the excess by the end of the next school year. Island City Academy has developed a plan to spend down the excess by June 30, 2024.

This report is intended solely for the information and use of management and others within the Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner Costerisan PC



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September 13, 2023

To the Board of Education
Island City Academy

We have audited the financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of Island City Academy for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Island City Academy are described in Note 1 to the financial statements. During fiscal year 2023, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 96 *Subscription-based IT Arrangements*. There was no material impact on the Academy's financial statements after the adoption of GASB Statement No. 96. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's determination of the estimated life span of the capital assets. We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 13, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Island City Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC